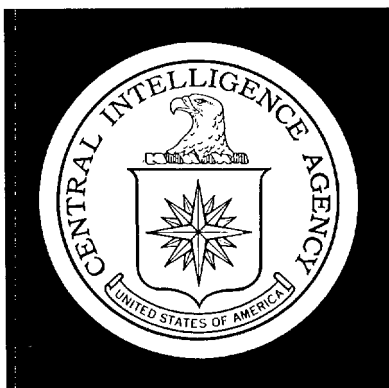


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SECRET

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Central Intelligence Bulletin

CONTENTS

JAPAN: Trade relationships with Nationalist China and South Korea. (Page 1)

CEMA: Ceausescu's opposition to Moscow's version of economic integration. (Page 2)

SPAIN: Cholera outbreak. (Page 3)

EAST PAKISTAN: Famine probable (Page 4)

SYRIA-JORDAN: Border closing (Page 4)

INDIA-YUGOSLAVIA: Hard currency trade (Page 5)

INTERNATIONAL MONETARY DEVELOPMENTS: Policy on exchange-rate fluctuations (Page 5)

SECRET

SECRET

JAPAN: Japanese companies are reconsidering their trade relationships with Nationalist China and South Korea.

Several major Japanese corporations have decided not to attend the annual meetings of the Japan-Korea and Japan - Republic of China Cooperation Committees. New Japan Steel and Japan Airlines were the first to cancel plans to send observers to the latter and Taipei promptly canceled invitations to all other firms to save face. Moreover, five of the six Japanese shipping firms serving Taiwan plan to terminate their service, according to press reports.

US Embassy sources in Seoul indicate that Toyota Motors is seeking to liquidate its substantial involvement in South Korea.

These moves reflect the growing sensitivity of Japanese firms toward political and economic involvement with Taiwan and South Korea in view of what they believe is an improving atmosphere for economic relations with Communist China. Part of this sensitivity stems from the "Four Principles" set forth by Chou En-lai in April 1970, which included a prohibition against Japanese firms trading with South Korea or Taiwan.

Over the short term, many firms are interested mainly in reducing the visibility, rather than the substance of their trade relationships with the two countries; over the long run, however, a growing number of companies will have to choose between immediate economic benefit in Taiwan and South Korea and what they believe is a potentially more lucrative market on the mainland.

25X1

27 Jul 71

Central Intelligence Bulletin

1

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CEMA: Romanian leader Ceausescu will continue to oppose Moscow's version of economic integration at the annual session of the Council for Economic Mutual Assistance (CEMA) that opens today in Bucharest.

To be attended at the chief-of-government level, the three-day meeting may reveal diverging interests. These could lead to some minor fireworks with Romania, in particular, over approval of the draft program "for a further deepening and improving of cooperation and for developing socialist economic integration." The CEMA executive committee approved the draft program earlier this month. Although barbs are likely to be traded, especially by the USSR and their Romanian hosts, the usual public acknowledgment of respect for national sovereignty will permit Bucharest to accept a CEMA program document. Previous emphasis on the coordination of national economic plans is likely to give way to the narrower aspect of investment planning where some progress is possible.

In addition to heralding past "progress," largely in the fields of industrial standardization and some intranational cooperation among industries, the meeting may note further inching forward toward integration by the confirmation of projects to receive funds from the new CEMA International Investment Bank. This may represent the carrot in attracting East European support for further efforts toward integration. The stick wielded by the USSR remains its storehouse of raw materials now supplied under pricing or barter arrangements favorable to Eastern Europe.

Ceausescu has reaffirmed his opposition to economic integration in several recent speeches. Last Friday, while asserting that CEMA is "an important body," he nevertheless added that "interdependence in production must in no way infringe on national sovereignty" nor influence the right of any party to determine for itself the program of development that it wishes. He then drove home his point by remarking that "the times of the policy of domination and diktat are gone forever."

25X1

27 Jul 71

Central Intelligence Bulletin

2

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SPAIN: The outbreak of cholera near Zaragoza in northeast Spain may spread to southern France.

First confirmed on 22 July, cholera probably reached Spain from Morocco--the first country bordering the Mediterranean to be infected this year.

Actual incidence of cholera in the Zaragoza area probably is ten times the 250 clinical cases reported thus far. Although health authorities are carrying out mass vaccinations, the vaccines are only about 50 percent effective. Thus the further spread of cholera, at least in Spain and possibly to France, is likely.

The disease, which is transmitted by humans, could easily be carried outside Spain by tourists--some 2.8 million, predominantly Frenchmen, visited Spain in July. Although Zaragoza is not the most favored tourist area, it nonetheless ranks eighth in the number of overnight visitors.

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EAST PAKISTAN: According to the US Consulate in Dacca, famine appears probable and the most critical food period will be the last two months of 1971 before the large rice crop is harvested. A smaller crop, due for harvesting in September, will provide some temporary relief, but transport bottlenecks will prevent much of this crop from reaching those areas that need it most. The government has so far taken no meaningful steps to speed the movement of foodgrains, and distribution from the ports to the interior is lower in July than it was in June. There is no indication that the government intends to do much to alleviate these bottlenecks. In this situation, not all of the estimated 1.4 million tons of foodgrain imports needed through December can be moved to the deficit areas, and the consulate believes that starvation is likely beginning in November. [REDACTED]

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SYRIA-JORDAN: Syria has closed its border to exports from Jordan, as a gesture toward joining the wave of Arab reaction against King Husayn's suppression of the fedayeen. The closure primarily affects Jordan's leading export--phosphate rock. There probably will be no immediate serious economic damage to Jordan, although there will be a psychological effect upon the business community. Amman needs a period of stability to build business confidence in order to get the economy rolling again. [REDACTED]

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27 Jul 71

Central Intelligence Bulletin

4

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INDIA-YUGOSLAVIA: New Delhi has acceded to Belgrade's demand that trade beginning at the end of 1972 be conducted in convertible currencies instead of rupees. Delayed implementation will enable India to liquidate Belgrade's rupee balances of the equivalent of about \$25 million by additional exports to Yugoslavia in 1972. India is concerned that by agreeing for the first time to hard currency trade with a socialist country, the way has been opened for other East European countries to make similar demands. [REDACTED]

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INTERNATIONAL MONETARY DEVELOPMENTS: The Monetary Committee of the European Communities (EC) last week focused its attention on a recent US proposal to the International Monetary Fund that the permissible margins for exchange rate fluctuations be widened from one percent to two and a half or three percent. The EC countries favor wider margins, except among EC currencies, but disagree on how large the margins should be. Germany and the Netherlands would accept a substantial widening of the margin. France, which earlier had indicated it would accept an increase to only one and a half percent, is now reported to be more willing to discuss wider margins and floating exchange-rate arrangements. The Dutch and the French insisted at the meeting that margins should be widened only as one element of an international monetary reform package, such as that proposed by the Netherlands. The Dutch reform package, in addition to wider exchange-rate margins, includes a three-percent devaluation of the dollar against gold, a revaluation of some other currencies, agreement by all countries to maintain stricter balance-of-payments discipline, a US tightening of restrictions on investment abroad and a more equitable burden sharing of military and aid expenditures with the US. It reportedly was approved "in principle" by the Monetary Committee. [REDACTED]

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27 Jul 71

Central Intelligence Bulletin

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